

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 ONY-00 SS-15 /028 W
-----118235 241653Z /50R
P 240800Z JAN 78
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC PRIORITY 6357

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 1064

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E.O. 11652: GDS
TAGS: PFOR, ECON, ID, XE, XP
SUBJECT: EAST ASIAN ECONOMIC POLICY REVIEW

REF: (A) JAKARTA 0782, (B) JAKARTA 0969, (C) 77 STATE 299030,
(D) 77 JAKARTA 16976

1. FOLLOWING IS THIRD INSTALLMENT OF OUR CONTRIBUTION TO
SUBJECT REVIEW AND DEALS WITH U.S.- ASEAN RELATIONS.

2. GENERAL STRATEGY: AS WE OBSERVED IN PARA 6, REF A,
INDONESIA'S PERCEPTIONS OF THE U.S. ECONOMIC RELATIONSHIP
WITH ASEAN INTERRELATES WITH THEIR EXPECTATIONS OF HOW FAR
AND FAST THE U.S. CAN MOVE IN MEETING THEIR POSITION ON KEY
NORTH-SOUTH ISSUES. THIS INTERRELATIONSHIP APPEARS TO APPLY
ALSO TO OTHER ASEAN MEMBERS, PARTICULARLY MALAYSIA AND THE
PHILIPPINES. OUR RESPONSES LAST SEPTEMBER TO THE ASEAN STABEX
PRPOPOSAL AND PLEAS FOR SPECIAL TRADE PREFERENCES HAVE EMPHASIZED
THAT WE CAN BE RESPONSIVE ONLY IN THE BROAD MULTILATERAL
CONTEXT AND INDEED THAT IT IS U.S. POLICY NOT TO ENGAGE IN
SPECIAL ARRANGEMENTS FOR A PARTICULAR AREA OR GROUP OF
COUNTRIES. THIS IS CLEARLY THE ONLY POSITION WE CAN
TAKE. HOWEVER, FROM AN ASEAN VIEWPOINT THE "TRADE-OFF"
IN OUR POSITION IS SOME PROGRESS IN ESTABLISHING MULTI-
LATERAL INSTRUMENTALITIES TO RESOLVE COMMODITY PROBLEMS.
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ASEAN HOPES AND EXPECTATIONS ARE THEREFORE SET ON SUCH
PROGRESS.

3. THE COMMON FUND IS CASE IN POINT. AT MANILA LAST
YEAR WE LEFT NO DOUBT OF OUR OPPOSITION TO STABEX. OUR
RESPONSE WAS AN EXPRESSION OF OUR INTENTION TO CONSIDER
SYMPATHETICALLY ON A CASE-BY-CASE BASIS NEGOTIATION OF

COMMODITY AGREEMENTS AND TO PARTICIPATE ACTIVELY AND POSITIVELY IN COMMON FUND NEGOTIATIONS. WE ALSO INDICATED THAT WE LOOK TO THE WORLD BANK TO DEVOTE INCREASED RESOURCES TO LDC COMMODITY PROBLEMS AND TO LIBERALIZATION OF IMF COMPENSATORY FINANCING FACILITIES IN MEETING FINANCIAL NEEDS OF COUNTRIES DEPENDENT ON COMMODITY EXPORT EARNINGS. PROGRESS IN THESE AREAS HAS, NOT SURPRISINGLY, BEEN SLOW AND ACCORDINGLY ASEAN WILL BE FAR MORE SKEPTICAL IN ACCEPTING OUR POSITION IN THESE AREAS AT THE JUNE MEETING, UNLESS OF COURSE THERE HAS BEEN SOME DRAMATIC FORWARD MOVEMENT IN UNCTAD COMMODITY DISCUSSIONS AND ON THE COMMON FUND. THE INDONESIANS CERTAINLY CONSIDER THE COMMON FUND THE BELLWETHER OF THE U.S. POSITION ON COMMODITY ISSUES AS DEMONSTRATED BY WIDJOJO'S PROPOSAL FOR ORGANIZING EXCHANGES BETWEEN KEY G-77 AND G-19 MEMBERS TO DEVELOP MORE BROADLY ACCEPTABLE PROPOSALS. ANY HEADWAY THAT CAN BE MADE ON THE COMMON FUN FUND PRIOR TO THE NEXT DIALOGUE SESSION WOULD GO A LONG WAY TO STRENGTHEN OUR OWN POSITION VIS-A-VIS ASEAN AND TO REASSURE THEM THAT WE ARE INDEED PREPARED TO MEET THEIR REGIONAL DEMANDS THROUGH ACTIONS IN THE MULTILATERAL INTERNATIONAL FORA.

4. IN THE SAME VEIN ANY PROGRESS MADE IN THE MTN, WHICH TO SOME EXTENT DEPENDS ON THE ASEAN COUNTRIES' OWN MOMENTUM IN RESPONDING TO OUR SPECIAL OFFERS (SUCH AS CONFIDENTIAL

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TROPICAL PRODUCTS), WOULD HELP THE ATMOSPHERE AT THE SECOND DIALOGUE MEETING. AS SEEN FROM INDONESIA, HOWEVER, WE MUST TAKE INTO ACCOUNT THAT GOI'S RELUCTANCE TO ACCEPT OUR REQUIREMENT FOR RECIPROCITY MAY NOT BE EASILY OVERCOME. NON-INCLUSION OF INDONESIA IN GSP DOES NOT HELP THIS SITUATION AND WE WOULD HOPE THAT IN THE COMING YEAR THE DEPARTMENT WILL CONTINUE TO PUSH FOR A LEGISLATIVE SOLUTION TO ENABLE US TO EXTEND GSP TO INDONESIA.

5. WE BELIEVE OUR EFFORTS AT NEXT JUNE'S MEETING SHOULD BE CONCENTRATED ON THOSE AREAS WHERE THERE IS A REASONABLY GOOD

CHANCE THAT WE CAN OFFER SPECIFIC PLANS AND PROGRAMS. FOR OPTICAL AND PSYCHOLOGICAL REASONS, WE SHOULD SELECT ACTIONS THAT HAVE SOME PUNCH. OUR SUGGESTIONS ARE AS FOLLOWS.

6. DEVELOPMENT COOPERATION: THE PROJECT POSSIBILITIES PUT FORWARD IN 77 STATE 256640 IN SUPPORT OF VARIOUS ALREADY EXISTING REGIONAL INSTITUTIONS AND THE SELECTION OF MODEL PROJECTS ALREADY IN OPERATION IN INDIVIDUAL ASEAN COUNTRIES

IS A SOUND APPROACH. IN WORKING OUT THESE PROJECTS IT MAY BE DESIRABLE TO ESTABLISH SOME LIASISON WITH THE ASEAN ECONOMIC COMMITTEES (THROUGH THE MANILA LIAISON) --SEE 77 JAKARTA 13951. A TEAM OF TECHNICAL EXPERTS COULD BE SENT TO THE AREA TO CONSULT WITH THESE COMMITTEES, NOT ONLY ON PROJECTS THAT WE WOULD PUT FORWARD BUT ALSO AS A MEANS OF FINDING NEW PROJECTS OF INTEREST TO ASEAN. FOR EXAMPLE, THE FOOD AND AGRICULTURE COMMITTEE LOCATED HERE MIGHT BE BROUGHT INTO DISCUSSIONS ON AN EXPANSION OF REGIONAL FACILITIES SUCH AS THE LOS BANOS INSTITUTE IN THE PHILIPPINES.

7. SINCE MUCH ATTENTION IN THE ASEAN COUNTRIES HAS BEEN FOCUSED ON THE VARIOUS INDUSTRIAL PROJECTS, WE SHOULD
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TRY TO FIND WAYS OF GIVING SOME SUPPORT, AT LEAST INDIRECTLY. KUALA LUMPUR'S SUGGESTION THAT EXIM BANK OFFER A LINE OF CREDIT DESERVES SERIOUS EXAMINATION. WHILE IT MAY NOT BE POSSIBLE FOR EXIM BANK TO EARMARK A SPECIFIC SUM OF MONEY FOR THIS PURPOSE, AN ANNOUNCEMENT BY THE BANK THAT IT WOULD BE PREPARED TO CONSIDER LOANS FOR ASEAN PROJECTS OPEN TO U.S. PRIVATE PARTICIPATION WOULD BE HELPFUL NOT ONLY AS A POSITIVE GESTURE BUT ALSO AS A MEANS TO PERSUADE THE ASEAN COUNTRIES TO PERMIT SOME U.S. PARTICIPATION IN THE ENGINEERING AND CONSTRUCTION AND THE SUPPLY OF EQUIPMENT FOR THESE PROJECTS. SUCH AN ANNOUNCEMENT WOULD ALSO SERVE TO HIGHLIGHT NEW COMPETITIVE POSTURE OF EXIM BANK AND IT MAY HELP TO PREVENT U.S. FIRMS FROM BEING FROZEN OUT OF THESE PROJECTS BECAUSE OF JAPANESE OFFER TO LOAN UP TO \$1 BILLION TO ASEAN PROJECTS. IN LIGHT OF THESE CONSIDERATIONS, IT SEEMS TO US IT WOULD BE GOOD IF OUR SIDE COULD SMOKE OUT ASEAN ON ITS INTENTIONS FOR THESE PROJECTS.

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ACTION EA-12

INFO OCT-01 ISO-00 ONY-00 SS-15 /028 W

-----120019 241653Z /50R

P 240800Z JAN 78

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 6358

C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 1064

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8. INVESTMENT PROMOTION: OUR LUKEWARM STANCE REGARDING FOREIGN INVESTMENT, I.E. THAT WE NEITHER PROMOTE NOR DISCOURAGE IT, WILL, WE BELIEVE, NOT BE SUFFICIENTLY RESPONSIVE TO THE ASEAN VIEWS IN THIS AREA NOR WILL IT SATISFY THE AMERICAN BUSINESS COMMUNITY (APCAC) WHO ARE INCREASINGLY CLAMORING FOR A MORE AGGRESSIVE U.S. POLICY IN SUPPORT OF THEIR INTERESTS. ONE INDUCEMENT TO THE POTENTIAL NEW U.S. INVESTOR IS THE REALITY OF ASEAN ITSELF AND THE LONG RANG PROSPECT OF A MAJOR INTEGRATED MARKET. THIS SOME U.S. BUSINESSMEN MAY FEEL MAKES IT DESIRABLE TO ESTABLISH PRODUCTION FACILITIES INSIDE THE MARKET RATHER THAN TO DEVELOP THE MARKET FOR U.S.-ORIGIN MERCHANDISE. MAJOR INVESTMENTS MAY OF COURSE BENEFIT U.S. EXPORTS. ADMITTEDLY THERE IS NO CONSISTENCY IN THE VARIOUS INVESTMENT CLIMATES OF THE ASEAN MEMBERS AND IN FACT A CONSIDERABLE AMOUNT OF VARYING COMPETITION AMONG THEM TO ATTRACT OVERSEAS INVESTMENT. THERE MAY BE SOME INHERENT BENEFITS FOR US. IN THIS COMPETITION AMONG THEM TO ATTRACT OVERSEAS INVESTMENT. THERE MAY BE SOME INHERENT BENEFITS FOR US IN THIS COMPETITION INsofar THAT POSITIVE ACTIONS IN SOME COUNTRIES, SUCH AS, FOR EXAMPLE, THE PHILIPPINES OR MALAYSIA, COULD RUB OFF ON THOSE WHO FIND IT MORE DIFFICULT TO PUT THEIR HOUSE IN ORDER, SUCH AS INDONESIA. THE IDEA OF A UNIFORM ASEAN POLICY ON FOREIGN INVESTMENT AND THE VAGUE REFER-
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ENCES MADE IN SOME ASEAN QUARTERS TO ESTABLISH A REGIONAL INSTRUMENTALITY TO DEAL WITH THESE ISSUES COULD CONCEIVABLY PROVIDE A STABILIZING INFLUENCE ON THE OVERALL ASEAN POLICY TOWARDS PRIVATE FOREIGN CAPITAL. IN OUR VIEW IT MAY BE BETTER FOR THE TIME BEING TO LET THE FORCES OF COMPETITION AMONG ASEAN COUNTRIES TAKE THEIR COURSE IN THE HOPE THAT THIS WOULD EVENTUALLY RESULT IN BETTER INVESTMENT CLIMATES FOR ALL.

9. AGAINST THE FOREGOING BACKGROUND, AND IN THE ABSENCE OF A CLEAR PICTURE OF THE FUTURE OF OPIC, THE PROPOSAL OF A HIGH-LEVEL INVESTMENT MISSION TO ASEAN COUNTRIES SEEMS TO BE THE ONLY FEASIBLE ACTION AT THIS TIME THAT WOULD HAVE SOME PUNCH INsofar THAT I WOULD REAFFIRM

OUR INTEREST IN THE AREA.

10. DEPARTMENT MAY WISH TO PASS TO OTHER POSTS.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION
Control Number: n/a
Copy: SINGLE
Draft Date: 24 jan 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKARTA01064
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780035-0774
Format: TEL
From: JAKARTA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780130/aaaaazbn.tel
Line Count: 228
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 89eb24e1-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY, STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY, STADIS
Reference: 78 JAKARTA 782, 78 JAKARTA 969, 77 STATE 299030, 77 JAKARTA 16976
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3726394
Secure: OPEN
Status: NATIVE
Subject: EAST ASIAN ECONOMIC POLICY REVIEW
TAGS: PFOR, ECON, ID, XE, XP, US
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/89eb24e1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014